MEMORANDUM

To: Board of Regents

From: Board Office

Subject: Resolution Authorizing the Executive Director to Effect the Issuance of not to Exceed $25,000,000 University of Iowa Facilities Corporation Revenue Bonds, Series 2004

Date: June 7, 2004

Recommended Action:

Adopt A Resolution authorizing the Executive Director to take any and all action deemed necessary to effect the issuance of not to exceed $25,000,000 University of Iowa Facilities Corporation Revenue Bonds (Roy J. and Lucille A. Carver Biomedical Research Building), Series 2004.

(ROLL CALL VOTE)

Executive Summary:

The Board is asked to adopt a resolution authorizing the Executive Director to take action needed for the issuance of not more than $25,000,000 University of Iowa Facilities Corporation Revenue Bonds for the Roy J. and Lucille A. Carver Biomedical Research Building (CBRB).

The bonds would be sold to provide the additional funds needed for construction of the CBRB, which will house research functions of the Roy J. and Lucille A. Carver College of Medicine.

- The bond issue would be the third series of Facilities Corporation Revenue Bonds sold to finance construction of the project; the first two series of bonds totaling $25,000,000 were issued in September 2002.

The calendar year 2004 bond issuance schedule, approved by the Board in November 2003, included a sale by the University of Iowa Facilities Corporation in August 2004 to provide additional funding for the facility.

The University of Iowa Facilities Corporation was incorporated in 1967 as a not-for-profit supporting organization of the University of Iowa Foundation to assist in maintaining, developing, increasing, and extending the facilities and services of the University.

Although the bonds are being issued by the Corporation, they are deemed by Internal Revenue Service rulings to be issued "on behalf" of the Board of Regents and the State of Iowa. The Board of Regents must, therefore, approve the sale and terms of the bonds.

The bond structure for the University of Iowa Facilities Corporation bond issue differs from the structure used for Board of Regents bonds.

- The Corporation will issue the debt and lease the facility to the Board for use by the University during the term of the bonds.

- Upon retirement of the bonds, the facility will be conveyed to the University.

The last maturity of the bonds to be issued would be June 1, 2030. Annual debt service for the bonds of approximately $1.9 million would be paid from lease rentals, which will be paid by the University to the Facilities Corporation under the terms of the lease.

Background:

History

In November 1999, the Board granted the University permission to proceed with planning for the Extension of the Medical Education and Biomedical Research Facility (MEBRF – B).

In March 2001, the Board approved the schematic design for the project that would construct a 131,500 gross square foot facility to house research facilities and administrative functions of the College of Medicine (renamed the Roy J. and Lucille A. Carver College of Medicine by Board action in March 2002).

In November 2001, the Board approved the naming of the College of Medicine Proposed Building B as the Roy J. and Lucille A. Carver Biomedical Research Building (CBRB).

- The building was named for the Carvers in recognition of a $10,000,000 gift from the Roy J. Carver Charitable Trust to support capital development of the College of Medicine.

In March 2002, the Board approved a project description and budget in the amount of $40,731,000 for the CBRB with funding from revenue bonds and Carver College of Medicine gifts and earnings.

Two series of bonds to finance a portion of the cost of the project were sold in September 2002; the $25,000,000 in total bonds included $17,000,000 of single tax-exempt bonds (exempt from federal, but not state taxes) and $8,000,000 of taxable bonds consistent with the allocation of building space between educational use and sponsored research activities.

In February 2004, the Board approved a revised project budget in the amount of $42,790,000.

- The revised budget provided for the conversion of space designed for the administrative offices of the Carver College of Medicine to research laboratories in response to the College's increasing need for research space.

- Since the use of portions of the CBRB were changed from educational to sponsored research activities, it was necessary to comply with the Internal Revenue Code's "Change of Use Rules." In April 2004, the sum of $1,870,000 of the 2002 tax-exempt bond issue was reissued to maintain its tax exempt status.

Project Schedule — The project is currently under construction with an anticipated completion date of March 2006.

Electronic Bids — The Board, at its November 2001 meeting, adopted a resolution approving electronic bidding procedures.

Analysis:

Lease Obligation — The Corporation will issue the bonds and lease the facility to the Board for use by the University.

The lease obligation with the Corporation will be an absolute and unconditional obligation of the University of Iowa. Lease payments are to be sufficient to pay the interest and principal on the bonds; supplemental rents are equal to administrative and trustee expenses.

Taxable Bonds — The 2004 bonds will be the third series of bonds issued for the CBRB. In 2002, $17,000,000 in tax-exempt bonds and $8,000,000 in taxable bonds were issued.

When the 2002 bonds were sold, the Board was advised that an additional bond issue would be needed to complete the financing for the project.

Based upon the allocation of sponsored research activities (i.e., "private use") and educational activities (i.e., "governmental use"), for the facility, the 2004 series of bonds will be taxable.

Bond Insurance

The five series of bonds (1998, 2000, 2000A, 2002 and 2003) issued by the University of Iowa Facilities Corporation for MEBRF-A and the two series of bonds issued to date for the CBRB, were insured by a municipal bond insurance policy issued by Ambac Assurance Corporation; the policy insures the payment of principal and interest to the bondholders.

The bonds had the highest rating from the credit rating agencies, Moody's Investors Service and Standard and Poor's; this rating produced an interest rate reduction sufficient to offset the policy premium.

Springsted, Inc. the Board's financial advisor, has determined that insurance for the 2004 series would likely be a "breakeven option" (i.e., the interest rate reduction would only just offset the policy premium). Therefore, Springsted, Inc. is recommending that the bond issue have "purchaser's option" insurance. The issue would be prequalified for insurance and if it is cost effective, the insurance can be purchased.

Issue Size

An issuance size of $25,000,000 would include:

- Project costs (estimated at $22,638,000);
- Debt service reserve (estimated at $1,938,000)
- Issuance costs (estimated at $87,000); and
- Bond discount (estimated at $337,000).

Outstanding Bonds

Principal outstanding, as of June 2, 2004, of SUI Facilities Corporation bonds for projects on the Health Sciences campus include:

John W. Eckstein Medical Research Building (1986 Bonds, interest rates fixed in 1999)	$ 5,075,000
Medical Education and Biomedical Research Facility – A (MEBRF-A) (1998 Bonds)	19,250,000
MEBRF-A (2000 Bonds)	19,250,000
MEBRF-A (2000A Bonds)	5,350,000
MEBRF-A (2002 Bonds)	7,550,000
Carver Biomedical Research Building (CBRB) (2002A Bonds)	16,595,000
CBRB (2002B Bonds)	7,840,000
Total	$80,910,000

The total annual debt service payment for the above bonds is approximately $6.2 million.

Resolution

The resolution authorizing the Executive Director to take action needed to effect the issuance of the bonds, which was prepared by Ahlers Law Firm and reviewed by Springsted, Inc., is available from the Board Office.

The resolution includes a provision permitting the receipt of bids by means of both sealed and electronic communication; the receipt by electronic communication is consistent with the resolution adopted by the Board in November 2001 approving electronic bidding procedures.

Sale Date

The bond sale and award would be scheduled in conjunction with the August Board meeting.

Joan Racki

Approved: Gregory S. Nichols

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